

# *Committee on Finance*

## MEMORANDUM

To: Reporters and Editors  
Re: IRS response to global settlement inquiry  
Da: Tuesday, April 8, 2003

In January, Sen. Chuck Grassley, chairman of the Committee on Finance, and Sen. Max Baucus, ranking member, sent a letter to the IRS chief counsel regarding the deductibility of payments made in connection with the settlement of government investigations into actual or potential violations of law. The senators have received a response from the IRS chief counsel, B. John Williams, Jr. For copies of Mr. Williams' response, please call or e-mail with your fax number.

Sens. Grassley and Baucus made the following comment on the response.

"We received the reply from the IRS Chief Counsel, B. John Williams, Jr., to our January 30, 2003, letter regarding the deductibility of payments made in connection with the settlement of government investigations into actual or potential violations of law.

"The letter was beneficial in providing the Finance Committee a detailed understanding of the IRS' views on the law regarding the deductibility of settlements with the federal government. The IRS' analysis will be useful as the Finance Committee continues to consider this matter.

"While the letter highlights the grey areas of the law, it makes clear that the government negotiators play a key role in determining whether or not a settlement payment is deductible. The IRS letter notes that generally agencies do not contact the IRS or Treasury about tax aspects of specific settlements. This is a very disturbing fact and suggests that taxpayers are not being well-served if government negotiators are blind to the tax consequences of settlement negotiations. We believe there needs to be a government-wide change in this regard."

Grassley made the following additional comment:

"While government negotiators may be in the driver's seat, it appears that they may not know where they're going, or have a map. I look forward to working with Senator Baucus to determine what kind of government-wide change we need and whether that change requires legislation upon further analysis of the IRS letter and other aspects of this issue."